

Message Text

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E. O. 11652: GDS

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SUBJECT: CASEY STATEMENT AT OECD HLG OIL COMMITTEE MEETING,
JUNE 12.

REF: CASEY/ DI BONA TELECON JUNE 8

FOLLOWING REVISED VERSION OF FIRST DRAFT OF PROPOSED
STATEMENT FOR USE BY UNDER SECRETARY CASEY AT JUNE 12
MEETING OF HIGH LEVEL GROUP OF OECD OIL COMMITTEE
INCORPORATES SUGGESTED CHANGES BY MR. DI BONA AND NSC
STAFF IN ACCORDANCE WITH CASEY/ DI BONA TELECON OF JUNE 8.

QUOTE: MY GOVERNMENT CONSIDERS THESE MEETINGS OF THE
OECD HIGH LEVEL GROUP AND OIL COMMITTEE TO BE AMONG THE
MOST IMPORTANT ONES IT HAS EVER ATTENDED. THE WORLD IS
AT A CRITICAL JUNCTURE WITH RESPECT TO MEETING ITS OIL
NEEDS. THE WORLD INTERNATIONAL OIL SITUATION HAS CHANGED
SUBSTANTIALLY SINCE OUR LAST MEETINGS WERE HELD LAST
OCTOBER.

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-- THE WORLDWIDE SUPPLY SITUATION HAS BECOME EVEN TIGHTER
THAN IT WAS LAST FALL AND IS BECOMING INCREASINGLY
FOCUSED ON THE PERSIAN GULF AREA. COMPETITION BETWEEN
BUYERS HAS CONTRIBUTED TOWARDS CONTINUING RISING PRICES.

-- THE STRUCTURE OF INTERNATIONAL MARKETS IS CHANGING. FOR EXAMPLE, THE IRANIAN/ CONSORTIUM AGREEMENT AS WELL AS THE PARTICIPATION AGREEMENTS THAT WILL ULTIMATELY RESULT IN 51 PERCENT CONTROL FOR SAUDI ARABIA AND OTHER GULF PRODUCERS HAVE SHIFTED CONTROL AWAY FROM THE INTERNATIONAL OIL COMPANIES AND TOWARDS THE PRODUCER COUNTRY GOVERNMENTS.

-- IN RESPONSE TO THE DEVELOPING SITUATION, MOST GOVERNMENTS REPRESENTED HERE ARE RECONSIDERING THEIR ENERGY POLICIES TO FIT THE CHANGING SCENE. THESE DEVELOPMENTS HAVE INCREASED THE NEED AND URGENCY FOR COOPERATION AMONG OECD MEMBERS. TODAY, I WILL PLACE BEFORE YOU SPECIFIC PROPOSALS FOR COOPERATIVE ACTION WHICH OUR GOVERNMENT HOPES WILL RESULT IN CONCRETE ADVANCES BENEFICIAL TO OUR MUTUAL NATIONAL SECURITY AND OUR ECONOMIC WELL BEING.

EIGHT WEEKS AGO, PRESIDENT NIXON'S ENERGY MESSAGE WAS PUBLISHED. THE FOCUS OF THE MESSAGE WAS ON DOMESTIC NEEDS. SEVERAL INITIATIVES WERE ANNOUNCED AIMED AT INCREASING OUR DOMESTIC ENERGY SUPPLIES AND BUILDING SELF-SUFFICIENCY. WHEN THESE INITIATIVES TAKE EFFECT LATER THIS DECADE, THEY WILL DECREASE U. S. DEMAND FOR IMPORTED CRUDE OIL AND THUS HELP ALLEVIATE THE PROJECTED TIGHT WORLDWIDE SUPPLY SITUATION.

IN THE INTERNATIONAL AREA, THE PRINCIPAL EMPHASIS OF THE PRESIDENT'S MESSAGE WAS ON THE NEED FOR INTERNATIONAL COOPERATION IN MANY ENERGY RELATED FIELDS. WE CAN NOW FURTHER DEFINE SOME OF THE SPECIFICS OF THOSE PROPOSALS. BEFORE DOING SO, HOWEVER, I WANT TO DISCUSS THE U. S. POSITION REGARDING THE BROAD QUESTION OF RELATIONSHIPS BETWEEN OIL CONSUMING AND PRODUCING GOVERNMENTS.

THE UNITED STATES CONTINUES TO BELIEVE IT TO BE
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AGAINST OUR MUTUAL INTERESTS FOR MAJOR CONSUMING GOVERNMENTS TO SEEK EXCLUSIVE BILATERAL OIL SUPPLY ARRANGEMENTS WITH OIL PRODUCER GOVERNMENTS. SUCH AGREEMENTS TIE DOWN ONE COUNTRY'S PRODUCTION IN EXCLUSIVE SUPPLY ARRANGEMENTS AND REDUCE OVERALL WORLD PRODUCTION AND THEREBY WORK AGAINST OUR COLLECTIVE INTERESTS. THIS HAS BEEN THE U. S. POSITION IN THE PAST AND WILL CONTINUE TO BE.

OUR POLICIES IN THIS REGARD, OF COURSE, DEPEND IN PART ON THE ACTIONS OF OTHER CONSUMING GOVERNMENTS. IF OTHER COUNTRIES SEEK EXCLUSIVE BILATERAL ARRANGEMENTS, DANGEROUS COMPETITION BETWEEN US FOR OIL SUPPLIES COULD

RESULT. IT WILL REQUIRE A MEASURE OF RESTRAINT FROM EACH OF US IN OUR DEALINGS WITH OIL PRODUCER GOVERNMENTS.

WE HAVE ACTED WITH RESTRAINT IN OUR DEALINGS WITH PRODUCER COUNTRIES.

THERE IS, HOWEVER, A NEED FOR BILATERAL DISCUSSIONS AND COOPERATION WITH THE OIL PRODUCING COUNTRIES ON QUESTIONS AFFECTING THE PRODUCER COUNTRIES' LEGITIMATE INTERESTS. PRODUCER COUNTRIES HAVE A GENUINE CONCERN WITH THEIR ECONOMIC DEVELOPMENT, INVESTMENTS, AND OTHER FINANCIAL AND NATIONAL SECURITY PROBLEMS. THESE CONCERNS MUST BE ANSWERED IN WAYS THAT SUSTAIN THEIR WILLINGNESS TO PRODUCE THE OIL NEEDED TO MEET WORLD DEMAND OVER THE NEXT TWO DECADES. DISCUSSIONS BETWEEN CONSUMER AND PRODUCER NATIONS CAN HELP ALLEVIATE THESE CONCERNS AND INCREASE WORLD PRODUCTION. THEY, THEREFORE, SUPPORT OUR COMMON INTERESTS.

THE INTERNATIONAL OIL COMPANIES NO LONGER HAVE COMPLETE CONTROL OVER PRODUCTION AND WHETHER OR NOT THE DEMAND REQUIREMENTS OF THEIR CUSTOMERS ARE MET. AGREEMENT MUST BE ATTAINED FROM THEIR NEW PARTNERS IN MANAGEMENT-- THE PRODUCER GOVERNMENTS. ALREADY, THE GOVERNMENT OF KUWAIT HAS SET A LIMIT ON PRODUCTION AND SAUDI ARABIA IS FINDING ITS MOUNTING FINANCIAL RESERVES LESS AND LESS ATTRACTIVE.

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THESE COUNTRIES MUST BE CONVINCED THAT IT IS IN THEIR INDIVIDUAL NATIONAL INTEREST TO MARRY THEIR OIL WITH THE EQUALLY VALUABLE TECHNOLOGICAL AND MANAGEMENT EXPERTISE AS WELL AS THE MARKETS OF THE INDUSTRIALIZED CONSUMER NATIONS. ONLY THROUGH THIS COOPERATION CAN THESE COUNTRIES REAP LASTING BENEFITS FOR THEIR PEOPLE DURING THIS ONE, BRIEF GENERATION WHEN THEY ARE IN A HIGHLY FAVORED RESOURCE POSITION.

PRODUCER AND CONSUMER COUNTRIES ALIKE WANT THIS PROCESS TO DEVELOP INTO A MUTUALLY BENEFICIAL FLOW OF OIL AND REVENUES ADEQUATE TO MEET THE WORLD NEEDS AND GUARANTEE THE LONG TERM STRENGTH OF PRODUCER COUNTRY ECONOMIES-- EVEN AFTER TODAY'S TIGHT OIL MARKET HAS SUBSIDED.

THIS WILL BECOME A REALITY IF WE COLLECTIVELY REFRAIN FROM CONVERTING THE SITUATION INTO A SCRAMBLE FOR EXCLUSIVE SUPPLY AND/ OR INVESTMENT ARRANGEMENTS. BUT TODAY WE CONSUMER GOVERNMENTS AND OUR PRODUCER COUNTERPARTS DO NOT HAVE SATISFACTORY INSTITUTIONS AND POLICIES TO RESPOND IN THE MONETARY, TRADE, AND INVESTMENT AREAS.

ESPECIALLY WITH RESPECT TO THESE CRITICAL ISSUES THERE
IS GREATER NEED FOR CLOSER, MORE FREQUENT DISCUSSION

BETWEEN OURSELVES AND THE PRODUCER NATIONS.

LET ME NOW TURN TO SPECIFIC COOPERATIVE PROPOSALS THE
U. S. GOVERNMENT WOULD LIKE TO PUT BEFORE THIS HIGH LEVEL
GROUP AND OIL COMMITTEE FOR CONSIDERATION AND
IMPLEMENTATION. TWO AREAS PREVIOUSLY DISCUSSED BY THE
OECD AND COVERED IN PRESIDENT NIXON'S ENERGY MESSAGE
ARE (1) THE DEVELOPMENT OF AN OECD- WIDE AGREEMENT
FOR SHARING OIL IN TIMES OF ACUTE SHORTAGES; AND (2) THE
DEVELOPMENT OF INTERNATIONAL COOPERATION IN RESEARCH
AND DEVELOPMENT.

MY GOVERNMENT IS CURRENTLY INTENSELY STUDYING THE
WHOLE QUESTION OF OIL SHARING IN TIMES OF CRITICAL
SHORTAGE. WE FAVOR PARTICIPATION BY ALL PARTIES IN SOME
SORT OF EMERGENCY SHARING SCHEME WHICH WOULD BE BASED ON
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OIL IMPORTS CARRIED OVER INTERNATIONAL WATER. OUR
PRELIMINARY WORK HAS ALSO SHOWN THAT IN ANY SUCH SHARING
AGREEMENT THE U. S. WOULD VERY LIKELY BE A NET CONTRIBUTOR--
CONTRIBUTING SOME OF ITS IMPORTS TO THE SHARING POOL.
ALTHOUGH WE RECOGNIZE THIS MEANS THE U. S. WOULD SUSTAIN
A GREATER IMPORT REDUCTION UNDER EMERGENCY CONDITIONS,
WE STILL BELIEVE IT IS IN THE U. S. INTEREST TO CONSIDER
PARTICIPATION. WITHOUT U. S. PARTICIPATION, THE DETERRENT
VALUE OF ANY SCHEME WOULD BE SEVERLY REDUCED AND WE
EACH COULD BECOME INDIVIDUALLY VULNERABLE TO POLITICALLY
MOTIVATED BOYCOTTS.

OUR STUDIES HAVE SHOWN THAT COUNTRIES PARTICIPATING IN
AN IMPORT SHARING ARRANGEMENT SHOULD PROBABLY ALSO HAVE
PETROLEUM STOCKPILE AND STANDBY RATIONING ARRANGEMENTS
AVAILABLE TO SUPPORT THEIR PARTICIPATION. EACH OF THESE
ARE MUTUALLY SUPPORTIVE MEANS OF PROTECTING THE NATION'S
VULNERABILITY TO SUPPLY INTERRUPTION. OUR STUDIES ARE
INVESTIGATING WAYS IN WHICH THESE THREE SCHEMES COULD
BE INTEGRATED.

IN RESPONSE TO THE EUROPEAN MEMBERS' REQUEST, THE U. S.,
CANADA, JAPAN AND AUSTRALIA HAVE BEEN DISCUSSING POSSIBLE
OECD- WIDE OIL SHARING ARRANGEMENTS. WE HAVE NOT YET
REACHED A FIRM UNDERSTANDING BUT WE ARE ALL WILLING TO
ENTER NOW INTO DISCUSSIONS WITH OTHER OECD COUNTRIES.
WE THEREFORE, PROPOSE THE FORMATION OF AN OECD OIL
COMMITTEE WORKING GROUP TO SHARPEN THE ISSUES. THE
PURPOSE WOULD NOT BE TO SPECIFY INDIVIDUAL COUNTRY
POSITIONS BUT TO CLARIFY THE ALTERNATIVES. THIS GROUP

SHOULD BE INSTRUCTED TO COMPLETE ITS ANALYSIS OF THE ISSUES AND OPTIONS AND REPORT BACK TO THE MEMBER GOVERNMENTS PRIOR TO THIS FALL' S HIGH LEVEL GROUP MEETING.

RESEARCH AND DEVELOPMENT WILL BE THE BASIS FOR THE LONG- TERM SOLUTIONS TO OUR MUTUAL ENERGY PROBLEMS. COOPERATIVE BILATERAL AND MULTILATERAL R AND D PROJECTS BETWEEN NATIONS CAN AVOID DUPLICATION, REDUCE COSTS AND HELP HASTEN THE DAY WHEN SOLUTIONS WILL BE ATTAINED.
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WE KNOW THAT EACH OECD MEMBER COUNTRY IS PERFORMING SIGNIFICANT RESEARCH AND DEVELOPMENT WORK IN ITS OWN IN THE ENERGY FIELD AND WE BELIEVE THAT THE OECD COULD PLAY A VALUABLE ROLE IN COLLECTING, CATALOGING AND DISSEMINATING INFORMATION ON WHAT RESEARCH WORK IS BEING DONE. THIS COULD BE A USEFUL FIRST STEP TOWARDS MEANINGFUL COOPERATION IN THE R AND D FIELD. A MAJOR GAP EXISTS IN OUR OWN KNOWLEDGE OF EACH COUNTRY' S EFFORTS IN ENERGY RESEARCH. AN UP TO DATE INVENTORY AND EXCHANGE OF INFORMATION ON ON- GOING PROJECTS WOULD GO FAR IN ASSISTING US ALL TO SET PRIORITIES, REDUCE EXPENSIVE DUPLICATIONS OF EFFORT, AND COULD LEAD TO MUTUALLY BENEFICIAL COORDINATION OF OUR RESEARCH EFFORTS. WE OFFER NO PRECISE PROPOSAL AS TO HOW THIS ROLE MIGHT BE CARRIED OUT BY THE OECD; WE WOULD LEAVE THAT UP TO THE ORGANIZATION. ONE WAY MIGHT BE TO CONVENE OFFICIALS FROM EACH COUNTRY WHO ARE WELL INFORMED ON THEIR NATION' S RESEARCH EFFORTS IN ORDER TO DISCUSS HOW BEST TO PROCEED WITH A COMPREHENSIVE INVENTORY OF ON- GOING RESEARCH. WE BELIEVE THAT THE MOST EFFICIENT JOINT RESEARCH CAN THEN BE DETERMINED BY INDIVIDUAL COUNTRIES WORKING OUT SPECIFIC PROJECTS WITH OTHERS ON A CASE- BY- CASE BASIS WHERE BOTH LEAVE SOMETHING AND CONTRIBUTE.

REGARDLESS OF OUR SUCCESS IN DEVELOPING ALTERNATIVE ENERGY SOURCES THROUGH RESEARCH AND DEVELOPMENT, ALL OF THE COUNTRIES REPRESENTED HERE WILL INEVITABLY BECOME MORE HEAVILY DEPENDENT ON IMPORTED OIL OVER THE NEXT TWO DECADES. WE ARE ALL, THEREFORE, CONCERNED OVER THE ADEQUACY AND PRICE OF OIL SUPPLIES. IN THIS SITUATION, WE MUST AVOID THE POTENTIAL FOR HIGHLY DIVISIVE AND COSTLY COMPETITION BETWEEN OIL IMPORTING COUNTRIES FOR SPECIAL ACCESS TO OIL SUPPLIES.

MOVING FROM THIS BROAD OBJECTIVE TO A SPECIFIC FORM OF COOPERATION THROUGH WHICH THE OBJECTIVE CAN BE ATTAINED, HOWEVER, WILL NOT BE EASY. WE MUST START BY FOCUSING OUR COOPERATIVE EFFORTS ON AREAS OF PARTICULAR MUTUAL INTEREST IN THE ENERGY AREA SOME OF WHICH I HAVE ALREADY

DISCUSSED. OTHERS INCLUDE ENERGY CONSERVATION, AND WAYS
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TO ACCOMMODATE THE FINANCIAL IMPACT OF INCREASING WORLD
OIL IMPORTS. WE ALSO HAVE MUTUAL INTERESTS IN THE
EXPLORATION FOR AND EXPLORATION OF NEW HARDER TO OBTAIN
CONVENTIONAL AND UNCONVENTIONAL SOURCES OF HYDROCARBONS.

WE SUGGEST THAT A GOOD FIRST STEP AIMED AT INCREASING
OUR KNOWLEDGE OF MUTUAL PROBLEMS AND WORK ON CERTAIN KEY
AREAS WOULD BE TO ARRANGE FOR MORE FREQUENT MEETINGS OF
THIS HIGH LEVEL GROUP. PERHAPS TWO ADDITIONAL QUARTERLY
MEETINGS, LESS ELABORATE AND LESS FORMAL THAN THE CURRENT
BIANNUAL AFFAIRS. IN ADDITION, THE U. S. PLANS TO INCREASE
ITS CONTACTS WITH THE OECD HIGH LEVEL GROUP AND OIL
COMMITTEE MEMBERS THROUGH ESTABLISHED DIPLOMATIC AND
OTHER CHANNELS. WE HOPE YOU WILL BE DOING THE SAME.

THESE FIRST STEPS TOWARDS IMPROVED COOPERATION BETWEEN
CONSUMER NATIONS DO NOT SIGNAL CONFRONTATION WITH THE
PRODUCER NATIONS. ON THE CONTRARY WE LOOK TO ENHANCED
COOPERATION AS A MEANS OF COORDINATING ENERGY NEEDS TO THE
MUTUAL BENEFIT OF BOTH PRODUCER AND CONSUMER NATIONS.

THESE THEN ARE OUR PROPOSALS FOR ACTION. THEY REFLECT
A CONCERN WITH THE DYNAMICS AND DANGERS OF THE WORLD OIL
SITUATION. THEY ARE ALSO PRACTICAL AND ACHIEVABLE.
THEY REPRESENT OUR OWN CONVICTIONS THAT OUR GOALS AND
CONCERNS ARE MORE LIKELY TO BE MET BY SUSTAINED,
THOUGHTFUL WORK AIMED AT ADDRESSING OUR MUTUAL PROBLEMS
AND ENHANCING MUTUAL COOPERATION RATHER THAN BY CATCHY,
FLAMBOYANT SCHEMES. THIS WORK MUST START NOW. UNQUOTE.
RUSH

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